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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000702

SIPDIS

E.O. 12958: DECL: 10/14/2018

TAGS: [ECON](#) [EPET](#) [ENRG](#) [IR](#) [BA](#)

SUBJECT: BAHRAIN CONTINUES SEARCH FOR ADDITIONAL GAS
SUPPLIES, INCLUDING NEGOTIATIONS WITH IRAN

REF: 07 MANAMA 1070

Classified By: DCM Christopher Henzel for reasons 1.4 (b) and (d)

¶1. (C) Summary: Bahrain is continuing talks with Iran over a potential deal to import natural gas, but a key industry figure claimed that the negotiations are a ploy to encourage the U.S. and Saudis to put pressure on Qatar to be more forthcoming with its own gas supplies. Deep-well gas exploration bidding is underway, but may be aimed more at improving the GOB's position in anticipated price negotiations than at significant production. End Summary.

¶2. (C) Bahrain Petroleum Company (BAPCO) CEO Abdulkarim Al Sayed told EconOff October 9 that natural gas negotiations with Iran have been moving forward since the signing of the MOU in November 2007 (reftel). Sayed expected a framework agreement to be signed during the Iranian Petroleum Minister's planned visit to Bahrain on October 15. The framework agreement would pave the way for price negotiations in the December/January time frame. Noting that Bahrain would prefer to get its gas from within the GCC, Sayed stated that negotiations with Saudi Arabia and Qatar had so far been unsuccessful, then smiled and added that the negotiations with Iran were "mostly a way to get the Americans and Saudis to put pressure on Qatar" to be more forthcoming in its negotiations.

¶3. (C) Sayed said that Bahrain's National Oil and Gas Authority (NOGA) was currently taking bids for onshore deep-well gas exploration. He stated that although it was probably a losing proposition, the King had told him personally to "get some wells in the ground" so that when Bahrain enters into price negotiations, it can appear stronger and not as desperate for gas. While Bahrain's current production of natural gas is approximately 1.5 billion standard cubic feet/day (SCFD), its demand is 1.4 billion SCFD, of which approximately 18% is re-injected for production purposes. Sayed stated that the King's long-term strategic goal is to import one billion SCFD, and prolong the extraction of Bahrain's limited reserves.

¶4. (C) In addition to expanding/extending gas reserves, the GOB is working to expand its oil production. Oil Minister Dr. Abdul Hussain bin Ali Mirza told Charge in September that NOGA was entering the final round of bids regarding onshore oil-well enhancement, and only three companies remained--Occidental, ExxonMobil, and Maersk. Mirza said that all three production-sharing bids expected total production to at least double current production from 35,000 bbl/day to more than 70,000 bbl/day. Sayed said that the added production will not be light sweet crude, and probably will not be refined at BAPCO but sold on world crude markets.

¶5. (C) In addition to on-shore well enhancement, NOGA will award four blocks of offshore exploration. Blocks three and four, covering all of Bahrain's southern and eastern territorial waters, have already been granted to Occidental

Petroleum; block two, covering the west and immediate northern waters, went to PTT Exploration and Production (PTTEP) of Thailand; and block one is scheduled to be awarded before the end of the year. Sayed said that Occidental will likely win that contract as well. Although Bahrain has had 22 failed attempts at offshore exploration already, it remains hopeful that new technologies will produce a success.

16. (C) Comment: Bahrain's continued economic health is heavily dependent on its supply of power -- primarily electricity. Approximately 60% of Bahrain's natural gas consumption is used for electricity production -- 27% by Aluminum Bahrain (ALBA) and 33% by Bahrain Electricity Authority and Power Company. Although the negotiations with Iran may be a tactic to put pressure on Saudi Arabia and Qatar to free up more natural gas, Bahrain's leaders recognize that the demand for gas will exceed its supply relatively soon, and that action must be taken now to prevent any economic disruption. (Note: Sayed's assertion tracks with the views of many in Bahrain (reftel). Sayed is a forty-year veteran at BAPCO, who appears comfortable speaking his mind with the freedom that comes from seniority and a personal relationship with the King. End Note.)

17. (C) Although the GOB has previously stated that it projects a five-year time horizon before energy supplies become critical (reftel), that time horizon is not rigidly fixed since a number of options exist that could extend it significantly. Because the demand for gas is driven by the demand for electricity, programs such as retrofitting existing power generators to increase efficiency, connecting to a GCC-wide electrical grid and purchasing power from

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abroad, and investing in alternative power generation technologies could potentially extend the "critical" horizon to almost twenty years, by which time even nuclear power may be viable. Despite these alternatives, GOB officials insist that they are serious about finding another gas partner -- even if it is Iran. End Comment.

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